

# INTERIM REPORT 2010



**中國農業生態有限公司**  
**China Eco-Farming Limited**

(Continued into Bermuda with limited liability)  
(Stock Code: 8166)



## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

**GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the main board and no assurance is given that there will be a liquid market in the securities traded on GEM.**

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*This report, for which the directors of the China Eco-Farming Limited (the “Company”) (the “Director(s)”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.*

*This report will remain on the Company’s website at <http://www.aplushk.com/clients/8166chinaeco-farming/index.html> and “Latest Company Announcements” page of the GEM website for at least 7 days from the date of its posting.*

## HIGHLIGHTS

### Financial Highlights

The Group recorded an unaudited revenue of approximately HK\$11,784,000 for the six months ended 30 June 2010, representing a decrease of approximately 61.7% as compared with that for the corresponding period in 2009.

The unaudited loss for the period attributable to owners of the Company for the six months ended 30 June 2010 amounted to approximately HK\$8,303,000, representing an increase of approximately 41.3% as compared with approximately HK\$5,875,000 for the corresponding period in 2009.

The Board do not recommend the payment of an interim dividend for the six months ended 30 June 2010.



## UNAUDITED CONDENSED CONSOLIDATED INTERIM RESULTS

The board of directors (the "Board") of the Company would like to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively, the "Group") for the three months and six months ended 30 June 2010 together with the comparative figures for the corresponding periods in 2009.

### CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

(Expressed in Hong Kong dollars)

	Notes	For the three months ended 30 June		For the six months ended 30 June	
		2010	2009	2010	2009
		\$'000	\$'000	\$'000	\$'000
Revenue	3	<b>10,264</b>	20,492	<b>11,784</b>	30,754
Cost of sales		<b>(10,162)</b>	(20,124)	<b>(11,638)</b>	(29,960)
Gross profit		<b>102</b>	368	<b>146</b>	794
Other revenue	3	<b>2</b>	1	<b>302</b>	1
Administrative expenses		<b>(3,298)</b>	(2,506)	<b>(8,257)</b>	(5,662)
Finance costs	5	<b>(208)</b>	(546)	<b>(494)</b>	(966)
<b>Loss before taxation</b>		<b>(3,402)</b>	(2,683)	<b>(8,303)</b>	(5,833)
Taxation	6	–	(10)	–	(42)
Loss for the period		<b>(3,402)</b>	(2,693)	<b>(8,303)</b>	(5,875)
Loss for the period attributable to:					
Owners of the Company		<b>(3,402)</b>	(2,693)	<b>(8,303)</b>	(5,875)
Non-controlling interests		–	–	–	–
Loss per share					
– Basic (HK cents)	8	<b>(0.15)</b>	(0.35)	<b>(0.38)</b>	(0.76)

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
 (UNAUDITED)**

*(Expressed in Hong Kong dollars)*

	For the three months ended 30 June		For the six months ended 30 June	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Loss for the period	<b>(3,402)</b>	(2,693)	<b>(8,303)</b>	(5,875)
Exchange difference arising on translation of foreign operations, representing other comprehensive income for the period	-	1	-	1
Total comprehensive loss for the period	<b>(3,402)</b>	(2,692)	<b>(8,303)</b>	(5,874)
Total comprehensive loss attributable to:				
Owners of the Company	<b>(3,402)</b>	(2,692)	<b>(8,303)</b>	(5,874)
Non-controlling interests	-	-	-	-

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

(Expressed in Hong Kong dollars)

	<i>Notes</i>	<b>At 30 June 2010 (Unaudited) \$'000</b>	At 31 December 2009 (Audited) \$'000
<b>Non-current assets</b>			
Plant and equipment	9	<b>857</b>	1,123
Investment in an associate		<b>1</b>	1
		<b>858</b>	1,124
<b>Current assets</b>			
Trade and other receivables, deposits and prepayments	10	<b>10,661</b>	3,335
Bank balances and cash		<b>5,340</b>	23,985
		<b>16,001</b>	27,320
<b>Current liabilities</b>			
Trade and other payables and accruals	11	<b>317</b>	859
Amount due to a fellow subsidiary		<b>129</b>	51
Unsecured loans		<b>-</b>	3,000
Loan from a former fellow subsidiary		<b>12,049</b>	-
		<b>12,495</b>	3,910
<b>Net current assets</b>		<b>3,506</b>	23,410
<b>Total assets less current liabilities</b>		<b>4,364</b>	24,534
<b>Non-current liabilities</b>			
Loan from a fellow subsidiary		<b>-</b>	12,000
Convertible preference shares	12	<b>2,352</b>	16,549
		<b>2,352</b>	28,549
		<b>2,012</b>	(4,015)
<b>Capital and reserves</b>			
Share capital	13	<b>24,126</b>	9,126
Reserves		<b>(22,114)</b>	(13,141)
Equity attributable to owners of the Company		<b>2,012</b>	(4,015)
Non-controlling interests		<b>-</b>	-
		<b>2,012</b>	(4,015)

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 30 June 2010 (Expressed in Hong Kong dollars)

	Attributable to owners of the Company										
	Share capital	Share premium	Capital reserve*	Equity component of convertible preference		Special reserve	Statutory reserve	Foreign currency translation		Non-controlling interests**	Total
				preference shares	shares			Accumulated losses	reserve		
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>At 1 January 2009</b>	7,726	-	3,970	4,121	6,026	3,029	3,664	(29,605)	(1,069)	-	(1,069)
Exchange differences arising on translation of foreign operations, representing other comprehensive income for the period	-	-	-	-	-	-	1	-	1	-	1
Loss for the period	-	-	-	-	-	-	-	(5,875)	(5,875)	-	(5,875)
Total comprehensive loss for the period	-	-	-	-	-	-	1	(5,875)	(5,874)	-	(5,874)
<b>At 30 June 2009</b>	7,726	-	3,970	4,121	6,026	3,029	3,665	(35,480)	(6,943)	-	(6,943)
<b>At 1 January 2010</b>	9,126	8,156	-	4,121	6,026	-	-	(31,444)	(4,015)	-	(4,015)
Loss for the period, representing total comprehensive loss for the period	-	-	-	-	-	-	-	(8,303)	(8,303)	-	(8,303)
Conversion of convertible preference shares	15,000	3,106	-	(3,776)	-	-	-	-	14,330	-	14,330
<b>At 30 June 2010</b>	<b>24,126</b>	<b>11,262</b>	-	<b>345</b>	<b>6,026</b>	-	-	<b>(39,747)</b>	<b>2,012</b>	-	<b>2,012</b>

\* The capital reserve represents the Group's share of the contributions made by the minority shareholders to certain subsidiaries of the Group in the People's Republic of China ("PRC").

\*\* The share of losses by non-controlling interests of the Group already up to their investments cost as at 30 June 2009. Upon the disposal of Chineseroad Incorporated and its subsidiaries on 9 December 2009, the Group does not have any non-controlling interests as at 30 June 2010.

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

(Expressed in Hong Kong dollars)

	For the six months ended	
	30 June	
	2010	2009
	\$'000	\$'000
Net cash used in operating activities	<b>(15,661)</b>	(14,128)
Net cash from (used in) investing activities	<b>1</b>	(883)
Net cash (used in) from financing activities	<b>(3,006)</b>	12,000
Net decrease in cash and cash equivalents	<b>(18,666)</b>	(3,011)
Cash and cash equivalents at the beginning of period	<b>23,985</b>	11,457
Effect of foreign exchange rates changes	<b>21</b>	(3)
Cash and cash equivalents at the end of period, represented by bank balances and cash	<b>5,340</b>	8,443



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. Organisation and operation

China Eco-Farming Limited (the "Company") was incorporated as an exempted company with limited liability in the Cayman Islands under the Company Law of the Cayman Islands on 30 November 2000.

The shares of the Company were listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited on 5 February 2002. China Railway Logistics Limited ("CRL") (incorporated in the Bermuda), which is listed on GEM of The Stock Exchange of Hong Kong Limited, ceased to be the ultimate holding company of the Company on 29 January 2010 upon the completion of the conversion of convertible preference shares. The registered office of the Company is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The head office and principal place of business of the Company is Room 1301, 13/F, the Centre Mark, 287-299 Queen's Road Central, Hong Kong.

In the year ended 31 December 2007, the Company re-domiciled from the Cayman Islands into Bermuda by way of de-registration in the Cayman Islands and continuation as an exempted company under the laws of Bermuda. The change of domicile was approved by the shareholders of the Company on 15 October 2007 and the Company was continued into Bermuda with limited liability with effect from 29 October 2007.

The Company and its subsidiaries (collectively the "Group") are engaged in the business of one-stop value chain services. The one-stop value chain business provides services in various aspects including supply chain management, logistics management, distribution services and customer focused design solutions.

The unaudited condensed consolidated financial statements are presented in Hong Kong dollars ("HK\$"). Other than those subsidiaries established in the PRC whose functional currency was Renminbi ("RMB") and which were disposed in year 2008, the functional currency of the Company and its subsidiaries is HK\$.

As the Company is listed in Hong Kong, the Directors consider that it is appropriate to present the unaudited condensed consolidated financial statements in HK\$.

### 2. Principal accounting policies and basis of preparation

The condensed interim financial information has been prepared in accordance with the applicable disclosure provisions of Chapter 18 of the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") and with accounting standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The unaudited condensed financial results have been prepared under the historical cost basis.

The principal accounting policies and basis of preparation used in the preparation of the unaudited condensed consolidated financial results for the six months ended 30 June 2010 are consistent with those adopted in preparing the audited consolidated financial statements of the Group for the year ended 31 December 2009 except for the following amendments and interpretation (the "New HKFRSs") issued by HKICPA which are or have become effective.

HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs 2008 <sup>1</sup>
HKFRSs (Amendments)	Improvements to HKFRSs 2009 <sup>2</sup>
HKAS 24 (Revised)	Related Party Disclosures <sup>3</sup>
HKAS 27 (Revised)	Consolidated and Separate Financial Statements <sup>1</sup>
HKAS 32 (Amendment)	Classification of Rights Issues <sup>4</sup>
HKAS 39 (Amendment)	Eligible Hedged Items <sup>1</sup>
HKFRS 1 (Revised)	First-time Adoption of HKFRSs <sup>1</sup>
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters <sup>3</sup>
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters <sup>6</sup>
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions <sup>3</sup>
HKFRS 3 (Revised)	Business Combinations <sup>1</sup>
HKFRS 9	Financial Instruments <sup>7</sup>
HK(IFRIC) – Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement <sup>5</sup>
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners <sup>1</sup>
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments <sup>6</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2009

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2010

<sup>4</sup> Effective for annual periods beginning on or after 1 February 2010

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2011

<sup>6</sup> Effective for annual periods beginning on or after 1 July 2010

<sup>7</sup> Effective for annual periods beginning on or after 1 January 2013

The adoption of the above New HKFRSs has no material impact on the accounting policies of the Group and the methods of computation in the Group's unaudited condensed consolidated financial statements.

### 3. Revenue and other revenue

An analysis of the Group's revenue and other revenue for the period is as follows:

	For the three months ended 30 June		For the six months ended 30 June	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Revenue:				
One-stop value chain services	10,264	20,492	11,784	30,754
Other revenue:				
Others	2	1	302	1
	<b>10,266</b>	20,493	<b>12,086</b>	30,755

#### 4. Segment information

The Group determines its operating segments based on the reports reviewed by the chief operating decision maker, being the chief executive officer, for making strategic decisions. The segments are managed separately as each business offers different products which vary in materials used, design and technology and services which require different production/service information to formulate different marketing strategies. The following summary describes the operations in each of the Group's reportable segments under HKFRS 8:

Voice portal segment	–	provision of voice search engine portal
One-stop value chain services	–	provision of total solution services including trading, packaging and logistic solutions
KM systems	–	sale, development and implementation of non-structural knowledge integration systems and KM related network application system and technology

On 9 December 2009, the Group completed the disposal of Chineseroad Incorporated and its subsidiaries, which were engaged in the provision of voice search engine portal and the sale, development and implementation of non-structural knowledge integration systems and KM related network application system and technology.

#### Reportable segments

The following table presents revenue and results for the Group's reportable segments:

	Revenue		Segment result	
	For the six months ended 30 June			
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Operating divisions				
One-stop value chain services	11,784	30,754	(3,173)	198
Voice portal related services	–	–	–	(123)
KM systems	–	–	–	(860)
Segment results	11,784	30,754	(3,173)	(785)
Unallocated other income			302	1
Unallocated corporate expenses			(4,938)	(4,083)
Finance costs			(494)	(966)
Loss before taxation			(8,303)	(5,833)
Taxation			–	(42)
Loss for the period			(8,303)	(5,875)

## 5. Finance costs

	For the three months ended 30 June		For the six months ended 30 June	
	2010	2009	2010	2009
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Effective interest expense on convertible preference shares	48	396	196	783
Interest on loan from a former fellow subsidiary	160	150	298	183
	<b>208</b>	546	<b>494</b>	966

## 6. Taxation

Under the Law of the Peoples's Republic of China on Corporate Income Tax (the "CIT Law") and Implementation Regulation of the CIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards. However, certain subsidiaries which were disposed in year 2008 in the Group are "Encourage Hi-Tech Enterprise" and entitled to a reduced corporate income tax rate of 15% from 1 January 2008. As the PRC subsidiaries of the Group were loss-making for the three months and six months ended 30 June 2009, no provision for PRC income tax was made.

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. Therefore, Hong Kong Profits Tax was calculated at 16.5% (2009: 16.5%) of the estimated profit for the period. No provision for Hong Kong Profits Tax has been made for the three months and six months ended 30 June 2010 as the Group does not have any assessable profit subject to Hong Kong Profits Tax for the period.

No deferred tax asset has been recognised due to the unpredictability of future profits streams.

## 7. Dividend

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2010 (2009: Nil).



**8. Loss per share**

The calculation of basic loss per share for the three months and six months ended 30 June 2010 and 2009 respectively is based on the unaudited consolidated loss for the period attributable to owners of the Company of approximately HK\$3,402,000 (2009: HK\$2,693,000) and HK\$8,303,000 (2009: HK\$5,875,000), and the weighted average of 2,212,599,690 (30 June 2009: 772,599,690 (restated)) ordinary shares of HK\$0.01 each in issue during the three months and six months ended 30 June 2010 and 2009.

No diluted loss per share for the three months and six months ended 30 June 2010 and 2009, respectively, has been presented as the conversion of the Company convertible preference shares would result in an anti-dilution effect.

**9. Plant and equipment**

There was no addition of plant and equipment for the six months ended 30 June 2010 (2009: HK\$883,000).

**10. Trade receivables**

The credit period granted to the Group's trade receivables generally ranges from 90 days to 180 days. The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on the invoice date at the corresponding reporting date:

	<b>At</b>	At
	<b>30 June</b>	31 December
	<b>2010</b>	2009
	<b>(Unaudited)</b>	(Audited)
	<b>HK\$'000</b>	HK\$'000
0 to 90 days	<b>10,264</b>	3,090



## 11. Trade payables

The following is an aged analysis of trade payables presented based on the invoice date at the end of the corresponding reporting period:

	<b>At 30 June 2010 (Unaudited) HK\$'000</b>	At 31 December 2009 (Audited) HK\$'000
0 to 60 days	-	-

## 12. Convertible preference shares

	<b>Number of Shares</b>	<b>Amount HK\$'000</b>
<i>Authorised:</i>		
At 31 December 2009 and 30 June 2010, HK\$0.10 each	173,913,043	17,391
<i>Issued and fully paid:</i>		
At 31 December 2009, HK\$0.10 each	173,913,043	17,391
Conversion of ordinary shares ( <i>Note</i> )	(150,000,000)	(15,000)
At 30 June 2010, HK\$0.10 each	23,913,043	2,391

*Note:* Convertible preference shares in the nominal value of HK\$15,000,000 with the principal amount of HK\$17,250,000 were converted into 1,500,000,000 ordinary shares during the six months ended 30 June 2010.

The principal terms of the convertible preference shares (the "CP Shares") on the date of issue include the following:

**(i) Dividend**

Dividends of HK\$600,000 and HK\$134,000 calculated at 3% of par value of the CP Shares were accrued for the year ended 31 December 2009 and for the six months ended 30 June 2010 respectively. No dividends accrued or paid upon the CP Shares until 31 December 2007. An accrued dividend at the rate of 3% of par value will be paid annually.

**(ii) Capital**

On a return of capital on liquidation or otherwise (but not on conversion), the holders of the CP Shares ("CP Shareholders") shall have the right to be paid, in priority to any return of assets in respect of any other class of shares in the capital of the Company up to an amount equal to the aggregate notional value of \$20 million (equivalent to approximately HK\$0.115 per CP Share).

**(iii) Redemption**

The Company shall redeem all of the CP Shares at par plus the accrued and unpaid dividends at the maturity date falling five years from the date of allotment and issue of CP Shares.

**(iv) Conversion rights**

Each CP Shareholder shall have the right to convert at any time any CP Share, which shall be deemed to have a value equal to the notional value thereof, into ordinary shares at the conversion price of HK\$0.115 per share, subject to adjustment provisions which are standard terms for convertible securities of similar type.

Each CP Shareholder shall exercise the conversion right attaching to the CP Shares only if it has been confirmed by the Company in writing that the allotment and issue of the ordinary shares to such CP Shareholder and the Company will only issue the ordinary shares pursuant to an exercise of such conversion right if such issue will not cause the Company to be in breach of the minimum public float requirement of not less than 25% as stipulated under Rule 11.23 of the GEM Listing Rules.

**(v) Transferability**

The CP Shares may be freely transferable subject to the provision of the Company's bye-laws relating to the transfer of shares and share certificates and provided that no transfer of a CP Share shall be effected within a period of six months commencing on the date of issue of such CP Share.



**(vi) Voting**

The CP Shareholders shall not have the right to receive notice of, or to attend and vote at, general meetings of the Company, unless a resolution is to be proposed at a general meeting of the Company for winding up the Company or which if passed would vary or abrogate the rights or privileges of the CP Shareholders.

The net proceeds received from the issue of the CP Shares contain two components:

- (a) liability component represents the present value of the contractually determined stream of future cash flows discounted at the effective interest rate of 10.27% per annum; and
- (b) equity component represents the difference between the proceeds of issue of the CP Shares and the fair value assigned to the liability component.

The movement of the CP Shares is as follows:

	<b>Liability component</b> <i>HK\$'000</i>	<b>Equity component</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
At 1 January 2009	15,550	4,121	19,671
Interest charged for the year	1,599	–	1,599
3% CP Shares dividend for the year	(600)	–	(600)
<b>At 31 December 2009</b>	<b>16,549</b>	<b>4,121</b>	<b>20,670</b>
At 1 January 2010	16,549	4,121	20,670
Conversion	(14,259)	(3,776)	(18,035)
Interest charged for the period <i>(Note 5)</i>	196	–	196
3% CP Shares dividend for the period	(134)	–	(134)
<b>At 30 June 2010</b>	<b>2,352</b>	<b>345</b>	<b>2,697</b>



### 13. Share capital

	At 30 June 2010 (Unaudited)		At 31 December 2009 (Audited)	
	Number of Shares	Amount HK\$'000	Number of Shares	Amount HK\$'000
<i>Authorised:</i>				
Ordinary shares of HK\$0.01 each	3,260,869,570	32,609	3,260,869,570	32,609
<i>Issued and fully paid :</i>				
Ordinary shares of HK\$0.01 each (Note)	2,412,599,690	24,126	912,599,690	9,126

Note: Convertible preference shares in the nominal value of HK\$15,000,000 with the principal amount of HK\$17,250,000 were converted into 1,500,000,000 ordinary shares during the six months ended 30 June 2010.

### 14. Operating lease commitment

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	At 30 June 2010 (Unaudited) HK\$'000	At 31 December 2009 (Audited) HK\$'000
Within one year	182	294
In the second to the fifth year inclusive	-	49
	<b>182</b>	<b>343</b>

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

The business in which the Group is principally engaged involves the provision of one-stop value chain services to information technology, telecommunication and advanced manufacturing industries. The one-stop value chain services cover and include services such as supply chain management, logistics management, distribution services and customer-focused design solutions. The Board will continue to seek other investment opportunities and to explore the feasibility of expansion into other business segments with a view to diversify the Group's business portfolio aiming to enhance the Group's profitability and the shareholders' value in the long run.

### Financial Review

For the six months ended 30 June 2010, the Group recorded an unaudited revenue of approximately HK\$11,784,000, representing a decrease of approximately 61.7% as compared with approximately HK\$30,754,000 for the corresponding period in 2009. The decrease was mainly due to uncertainties in the global external environment and keen competition in the telecommunication market in Hong Kong and the PRC.

Cost of sales for the period ended 30 June 2010 under review decreased to approximately HK\$11,638,000 from approximately HK\$29,960,000 for the corresponding period in 2009, representing a decrease of approximately 61.2%. The decrease was in line with the decrease in revenue during the period.

Administrative expenses for the period ended 30 June 2010 under review increased to approximately HK\$8,257,000 from approximately HK\$5,662,000 for the corresponding period in 2009, representing an increase of approximately 45.8% as the Group has incurred more professional fee in assessing a potential investment.

Finance costs for the period ended 30 June 2010 under review decreased to approximately HK\$494,000 from approximately HK\$966,000, representing a decrease of 48.9% as part of the CP Shares has been converted into ordinary shares of the Company during the period.

The Group recorded a loss for the period ended 30 June 2010 attributable to owners of the Company in the amount of approximately HK\$8,303,000 as compared with approximately HK\$5,875,000 for the corresponding period in 2009. As a result, loss per share decreased from HK0.76 cents for the six months ended 30 June 2009 to HK0.38 cents for the six months ended 30 June 2010. No diluted loss per share for the period ended 30 June 2010 and 2009 has been presented as the conversion of the Company's CP Shares would result in an anti-dilution effect.

## Liquidity and Financial Resources

The Group financed its business operations with internally generated cash flows and a loan from a former fellow subsidiary. As at 30 June 2010, the cash and cash equivalents balance of the Group was approximately HK\$5,340,000 (31 December 2009: approximately HK\$23,985,000).

As at 30 June 2010, the Group had net assets of approximately HK\$2,012,000 (31 December 2009: net liabilities of approximately HK\$4,015,000). The Group maintained net current assets of approximately HK\$3,506,000 (31 December 2009: approximately HK\$23,410,000).

## Gearing Ratio

The gearing ratio of the Group, expressed as the ratio of total liabilities to total assets, decreased to 0.9 as at 30 June 2010 (31 December 2009: 1.1).

## Capital Structure

As at 30 June 2010, the Company's issued ordinary share capital was HK\$24,125,996.90 divided into 2,412,599,690 shares of HK\$0.01 each ("Shares") (31 December 2009: HK\$9,125,996.90 divided into 912,599,690 Shares), and the issued convertible preference share capital was HK\$2,391,304.30 divided into 23,913,043 convertible preference shares of HK\$0.10 each ("CP Shares") (31 December 2009: HK\$17,391,304.30 divided into 173,913,043 CP Shares). 150,000,000 CP Shares were converted into 1,500,000,000 Shares during the six months ended 30 June 2010.

## Charge on Group Assets and Contingent Liabilities

The Group did not have any charges on its assets and no contingent liabilities as at 30 June 2010.

## Capital Commitment

The Group did not have any capital commitment as at 30 June 2010.

## Exposure to Fluctuations in Exchange Rates

All of the Group's assets, liabilities and transactions are denominated either in Hong Kong dollars or Renminbi (RMB). The directors do not consider that the Group is exposed to any material foreign currency exchange risk. Therefore, no hedging or other alternatives have been implemented.

## Material Acquisitions and Disposals of Subsidiaries

The Group did not have any material acquisition or disposal of any of its subsidiaries during the six months ended 30 June 2010.

## Other Disclosure

On 29 April 2010, the Company entered into a letter agreement with Daewoo Securities (Hong Kong) Limited ("Daewoo Securities") pursuant to which the latter was retained and engaged as financial adviser to the Company during the Engagement Period (the "Agreement"). The Engagement Period shall not be longer than 12 months after the execution of the Agreement. Further, during the Engagement Period, Daewoo Securities will also act as placement agent to the Company in the private placement of securities, issuance of convertible bonds or bonds with warrants or exchangeable bonds (collectively, the "Securities"). It was contemplated that such Securities will be issued by the Company or affiliates of the Company in an aggregate principal amount of up to USD100 million in a single transaction (the "Private Placement"). Details of the Private Placement had been set out in the announcement published by the Company on 29 April 2010. The Company will keep the investment public well informed of the progress of the Private Placement.

## Outlook

On 13 July 2010, Golden Jack Development Limited ("Golden Jack"), a wholly-owned subsidiary of the Company, entered into a Framework Agreement with an Independent Third Party (being the sole shareholder and the sole beneficial owner of China Coalmines (Overseas) Group Limited ("CCOGL") and CCOGL. Under the Framework Agreement, Golden Jack may invest in the CCOGL by way of subscription of shares in CCOGL. CCOGL is a company incorporated in Hong Kong with limited liability. On 7 July, 2010, CCOGL and two other companies incorporated in the PRC with limited liability entered into the Sino-Foreign Equity Joint Venture ("SFEJV") Agreement for the purpose of equity investment in the SFEJV. The principal businesses of the SFEJV include, among others, investment in the power industry, chemical industry, advanced and innovative technology industry, coal mining-related business, transportation of coal, wholesale, retail and maintenance of mining-related equipment. The holding company of the SFEJV is a mega state-owned enterprise group which engages in coal mining and sales in various provinces in the PRC, a subsidiary of which is listed on the main board of the Stock Exchange. As at the date of this report, the aggregate amount of the first phase of investment in the SFEJV to be made by CCOGL, pursuant to the SFEJV Agreement, is approximately RMB2,000 million (approximately HK\$2,273 million).

The Group will continue to seek other investment opportunities and to explore the feasibility of expansion into other business segments with a view to diversify the Group's business portfolio aiming to enhance the Group's profitability and the shareholders' value in the long run.

### **Events After The Reporting Period**

On 13 July 2010, Golden Jack Development Limited ("Golden Jack"), a wholly-owned subsidiary of the Company, entered into a Framework Agreement with an Independent Third Party (being the sole shareholder and the sole beneficial owner of China Coalmines (Overseas) Group Limited ("CCOGL") and CCOGL. Under the Framework Agreement, Golden Jack may invest in the CCOGL by way of subscription of shares in CCOGL.

On 15 July 2010, (i) the Third Supplemental Share Placing Agreement was entered into among Top Status International Limited ("Top Status"), the Company and the Fortune (HK) Securities Limited (the "Placing Agent"); (ii) the Second Supplemental Share Subscription Agreement was entered into between Top Status and the Company and (iii) the Supplemental Convertible Bonds ("CB") Placing Agreement was entered into between the Placing Agent and the Company to amend the terms and conditions of the CB Placing, the Placing and the Subscription in order that the Company will not become a cash company as classified in the GEM Listing Rules upon the completion of the CB Placing and the Subscription. The aggregate gross proceeds from the Share Placing and the CB Placing are approximately HK\$152.3 million. Details of the above mentioned agreements have been set out in the Company's announcement dated 20 July 2010.

On 23 July 2010, CP Shares of principal amount of HK\$138,000 were converted into 12,000,000 ordinary shares of the Company at the conversion prices of HK\$0.0115 per share.

### **EMPLOYEES AND REMUNERATION POLICIES**

As at 30 June 2010, the Group had 22 full-time employees in Hong Kong (31 December 2009: 15). Staff costs, including Directors' remuneration of the Group for the six months ended 30 June 2010 totalled approximately HK\$2,672,000.

The Group decides the remuneration and compensation payable to its staff based on individual performance and expertise. Apart from basic remuneration, share options may be granted to eligible employees by reference to the Group's performance as well as individual contribution. Other benefits include, among others, retirement schemes.



## **DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS OR SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES OR DEBENTURES OF THE COMPANY OR ASSOCIATED CORPORATIONS**

As at 30 June 2010, none of the Directors or the chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (the "SFO") which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they have taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register maintained by the Company pursuant to Section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors.

## **DIRECTORS' AND CHIEF EXECUTIVES' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES**

Save as disclosed under the section "Directors' and Chief Executives' Interests or Short Positions in the Shares, Underlying Shares or Debentures of the Company or Associated Corporations" above, at no time during the period ended 30 June 2010 under review the Company or any of its subsidiaries, or any of its fellow subsidiaries, a party to any arrangement to enable the Directors or chief executive of the Company or their respective associates (as defined in the GEM Listing Rules) to have any right to subscribe for securities of the Company or any of its associated corporations as defined in the SFO or to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

## **DIRECTORS' INTERESTS IN CONTRACTS**

No Director of the Company had a significant beneficial interest, either direct or indirect, in any contract of significance to the business of the Group to which the Company or any its subsidiaries was a party at any time during the period ended 30 June 2010.



**SUBSTANTIAL SHAREHOLDERS**

As far as the Directors are aware, as at 30 June 2010, the following persons or companies other than the Directors or chief executive of the Company had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO or be directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstance of general meetings of the Company or substantial shareholders as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO were as follows:

**Long positions and short positions in the shares and underlying shares of the Company**

<b>Name</b>	<b>Capacity</b>	<b>Number of Shares and underlying Shares held or short positions</b>	<b>Approximate % of shareholding</b>
Top Status International Limited <i>(Note 1)</i>	Beneficial owner	776,406,430 (L) <i>(Note 2)</i>	32.18 (L)
		537,276,000 (S) <i>(Note 3)</i>	22.27 (S)
China Railway Logistics Limited <i>(Note 1)</i>	Interest of controlled corporation	776,406,430 (L) <i>(Note 2)</i>	32.18 (L)
		537,276,000 (S) <i>(Note 3)</i>	22.27 (S)
China Coalfields International Group Limited <i>(Note 4)</i>	Beneficial owner	537,276,000 (L) <i>(Note 3)</i>	22.27 (L)
Yiu Yat Hung <i>(Note 4)</i>	Interest of controlled corporation	537,276,000 (L) <i>(Note 3)</i>	22.27 (L)
Fortune (HK) Securities Limited <i>(Note 5)</i>	Beneficial owner	285,580,645 (L) <i>(Note 6)</i>	11.84 (L)

<b>Name</b>	<b>Capacity</b>	<b>Number of Shares and underlying Shares held or short positions</b>	<b>Approximate % of shareholding</b>
China Fortune Group Limited (Note 5)	Interest of controlled corporation	285,580,645 (L) (Note 6)	11.84 (L)
VMS Investment Group Limited (Note 7)	Beneficial owner	121,000,000 (L)	5.02 (L)
Mak Siu Hang Viola (Note 7)	Interest of controlled corporation	121,000,000 (L)	5.02 (L)

L: Long Position

S: Short Position

Notes:

1. Top Status International Limited ("Top Status") (a company incorporated in the British Virgin Islands with limited liability) is 100% directly owned by China Railway Logistics Limited ("China Railway") (a company incorporated in the Bermuda with limited liability, the issued shares of which are listed on GEM (Stock code: 8089)).
2. This comprised of the long position in (i) 537,276,000 ordinary shares of the Company (the "Shares"); and (ii) 23,913,043 convertible preference shares of the Company which is convertible into 239,130,430 Shares.
3. Top Status entered into the conditional sale and purchase agreement dated 3 March 2010 with China Coalfields International Group Limited ("China Coalfields") to dispose its interest in 537,276,000 Shares, and such disposal is subject to approval by the shareholders of China Railway.
4. China Coalfields (a company incorporated in Hong Kong with limited liability) is 100% beneficially owned by Yiu Yat Hung.
5. Fortune (HK) Securities Limited (a company incorporated in Hong Kong with limited liability) is 100% directly owned by Fortune Financial (Holdings) Limited (a company incorporated in Hong Kong with limited liability) which is in turn 100% directly owned by China Fortune Group Limited (a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Stock Exchange (Stock code: 290)).
6. This comprised of the long position in 135,000,000 ordinary shares of the Company (the "Shares"); and the convertible bonds (which the Company may issue) which is convertible up to 150,580,645 Shares (Details of this convertible bonds have been disclosed in the announcement of the Company dated 20 July 2010).
7. VMS Investment Group Limited (a company incorporated in the British Virgin Islands with limited liability is 100% beneficially owned by Mak Siu Hang Viola.



Save as disclosed above, the Directors and the chief executive of the Company are not aware that there is any party who, as at 30 June 2010, had interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or be directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances of general meetings of the Company or substantial shareholders as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

## **SHARE OPTION SCHEME**

The Company has adopted a share option scheme on 24 January 2002 (the "Share Option Scheme").

During the period ended 30 June 2010 under review, no share option had been granted under the Share Option Scheme and no share option granted under the Share Option Scheme remained outstanding as at 31 December 2009 and 30 June 2010.

## **COMPETING INTERESTS**

None of the Directors or controlling shareholders of the Company or any of their respective associates (as defined in the GEM Listing Rules) had any business or interest that competes or may compete with the business of the Group or has or may have any other conflict of interest with the Group during the period under review.

## **CODE ON CORPORATE GOVERNANCE PRACTICES**

The Company has complied with the applicable code provisions of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 15 of the GEM Listing Rules throughout the period under review except for the following deviation:

Under the code provision A.2.1 of the Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing.

Mr. Tang Shun Lam resigned as chairman and non-executive Director of the Company with effect from 13 August 2009. As at 30 June 2010, no replacement for the post of chairman has been appointed.

The Board will keep reviewing the current structure of the Board from time to time. If candidate with suitable knowledge, skills and experience is identified, the Company will make appointment to fill the post of chairman as appropriate.

## **CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the required standard of dealing set out in Rules 5.48 to 5.67 of the GEM Listing Rules as its code of conduct regarding securities transactions by Directors (the "Code"). Having made specific enquiry of all Directors, the Company was not aware of any non-compliance with the Code throughout the period under review.

## **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES**

During the period under review, neither the Company, nor any of its subsidiaries, purchased, redeemed or sold any of the Company's listed securities.

## **AUDIT COMMITTEE**

The Company established an audit committee (the "Audit Committee") on 31 July 2001 with written terms of reference in compliance with GEM Listing Rules. The primary duties of the Audit Committee are to review and supervise the financial reporting process and the internal control system of the Group. The Audit Committee currently comprises three independent non-executive Directors namely, Mr. Chau Chi Ming (Chairman), Mr. Cheung Tak Shum and Mr. Lau Tin Cheung.

The unaudited condensed consolidated financial results of the Group for the six months ended 30 June 2010 have been reviewed by the Audit Committee.

By Order of the Board  
**China Eco-Farming Limited**  
**Tsang Chi Hin**  
*Chief Executive Officer and Executive Director*

Hong Kong, 28 July 2010

*As at the date of this report, the chief executive officer and executive Director is Mr. Tsang Chi Hin; the executive Director is Mr. Chu Yu Man, Philip; and the independent non-executive Directors are Mr. Chau Chi Ming, Mr. Cheung Tak Shum and Mr. Lau Tin Cheung.*

